

SAN FRANCISCO
DEPARTMENT OF CITY PLANNING

ANALYSIS OF THE PUBLIC HEARING ALTERNATIVE
FOR THE NORTH OF MARKET [TENDERLOIN]
REHABILITATION ASSISTANCE PROGRAM (RAP)

October 6, 1977

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DEPARTMENT OF CITY PLANNING

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6 October 1977

≡ ANALYSIS OF THE PUBLIC HEARING ALTERNATIVE FOR THE

NORTH OF MARKET REHABILITATION ASSISTANCE PROGRAM (RAP)

At the public hearing on September 29, 1977, concerning the appeal of the preliminary negative declaration for the North of Market Rehabilitation Assistance Program (RAP), two suggested mandatory mitigation measures were proposed. These two measures were as follows:

- (1) Change the composition of the Citizens Advisory Committee to be no more than 30% owners, no less than 60% tenants, and a maximum of 20% representation by neighborhood organizations (in numbers, this was described following the hearing as 3 owners, 6 tenants and 2 group representatives), and change the Rent Committee to 3 tenants and 2 owners.
- (2) Provide for standby areawide (RAP area) rent stabilization, with quarterly reporting of rents by the owners to the Chief Administrative Officer, annual collection by the Chief Administrative Officer of welfare payments data, and implementation of rent stabilization upon a finding that rents are increasing at a rate greater than 3% above the annual increase of welfare payments, for the duration of the RAP loans (19 years).

The composition of the Citizens Advisory Committee was addressed in the Director of Planning's Recommendations to the Chief Administrative Officer of August 23, 1977, on pp. 30-31 (the Director had recommended seats for 4 owners, 5 tenants and 2 groups), and referenced in the Environmental Assessment of August 29, 1977, as a non-mandatory mitigation measure. The Rent Committee, presently 2 owners and 2 tenants, was not addressed in either the Director's Recommendations or the Environmental Assessment. The Supplement to the Environmental Analysis, dated September 26, 1977, noted on page 4 that a change in the composition of committees was not considered a major environmental consideration, as the decisions which would result were indeterminate.

Areawide rent control was addressed in the Director's Recommendations on pp. 21 and 29, as a voluntary program. The standby areawide rent stabilization as proposed is a form of rent control which would be triggered when rents increased more than 3% faster than annual welfare payment increases. The details of the rent stabilization are not defined, but the intent would be to ensure that rents do not increase greatly in excess of welfare payments increases.

Based on a conversation with officials at the Social Security Administration


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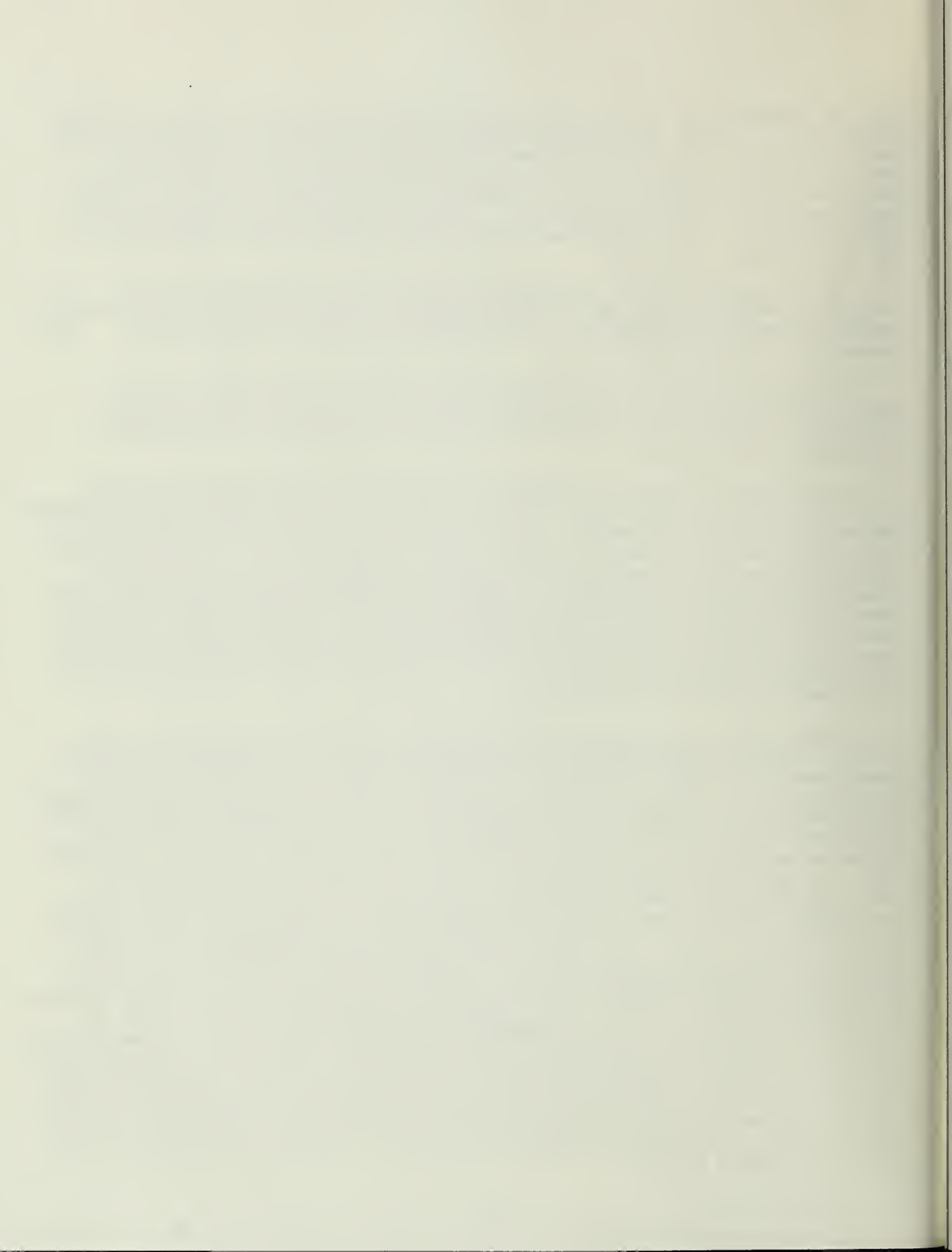
and the Department of Social Services, welfare payments are set to reflect increases in the cost of living. The RAP rent limitations are also keyed to increases in the cost of living for the duration of the RAP loan. Therefore, under existing RAP rent limitations, and for those units in RAP-financed buildings, the rents will not exceed the welfare payments. It is unclear how the appellants' mitigation measure would apply in the North of Market area, although it is anticipated that it would operate generally in the same manner as the existing RAP-loan rent limitations, but for all buildings in the area.

In any consideration of rent control in RAP areas, the legality of such a program would have to be established, in respect to an areawide limitation and to possible preemption by State law. A City Attorney's Opinion is being sought currently to assess these matters. 

In an effort to provide some insight into rent control generally, and its implications for the housing market and in particular the North of Market area, a literature search has been conducted and the result summarized in the following paragraphs of this analysis.

Rent control is typically proposed for areas where a severe housing shortage exists, and where rent escalation results in what some term excessive costs for tenants and exorbitant profits for owners. In the North of Market area, where there are presently low rents and no housing shortage, the rent control would be oriented towards maintaining present or comparable rent levels during the operation of a housing rehabilitation program which might be expected to improve housing quality, raise the general quality and livability of the neighborhood, and ultimately result in greater demand for the housing and consequently higher rents and lower vacancies. The rent stabilization would be preemptive in nature, and triggered upon a finding that rents are rising too fast in relation to increases in income of those in the community who are dependent upon welfare payments.

Rent control can have many different features and methods of operation, each variant of which could be expected to influence the impact of the program on housing market conditions. The more recent rent controls systems in New York, New Jersey, Massachusetts, and other areas have a mechanism to allow a "fair net operating income", which the owner is allowed, over and above normal operating expenses, which typically is related to any of five accounting methods: equalized assessed valuation, present market value, gross rents, past net income levels, or the owner's equity in the building. The definition of fair net operating income is difficult to establish, and no court has ever settled what a fair return would be. In terms of other variants in rent control systems, there may be vacancy decontrol, in which, once a tenant vacates a unit, the rent controls are dropped. There may be code compliance requirements, in which in order to raise rents, there must be proof that the building is up to Code. There may be eviction controls, in which a tenant may be evicted only under certain established conditions, to ensure that tenants are not evicted for purposes of evading or responding to rent controls. New housing may or may not have rent controls attached upon construction. Most recent rent control mechanisms exclude new construction so as not to remove the incentive for such construction. Case-by-case review of rent increases is the most equitable method, but is time-consuming and costly to administer. It was primarily on the basis of an inherently unreasonable and time-consuming review process that led the California Supreme Court to invalidate the Berkeley rent control program. All of the above mechanisms are important in evaluating the effects of the rent stabilization program.



Arguments for rent controls are generally as follows: (1) Housing is a fundamental necessity of life; in the case of a rapid increase in costs, households cannot easily defer or reduce their expenditure; (2) Housing is relatively inelastic to demand, when a shortage occurs the supply cannot easily expand, and the owners of housing can reap excess profits that are created by the shortage; (3) Housing, as a public good that is already controlled in terms of health and safety by codes, should be similarly regulated in terms of price; (4) Replacement of private owners by public or quasi-public entities, if this gradually occurs due to rent controls, will ensure that the public interest with respect to housing is better served; (5) Rent control is a necessary short-term tool for dealing with inflation, and can allow time to develop a more comprehensive approach to housing needs; (6) The capital gains and "tax shelter" aspects of real estate investment are more important to an owner than the cash flow potential which is susceptible to rent control influence.

Arguments against rent controls are generally as follows: (1) rent control reduces the supply of rental housing by reducing profitability of housing, discouraging building maintenance, ultimately encouraging abandonment, and encouraging conversion to condominiums or non-housing uses; (2) the tax base of the City is decreased, as rent control lowers the values of buildings and their subsequent tax assessments or taxes are left unpaid; (3) rent control often results in inequitable distribution of benefits, where the effective subsidy is unrelated to needs of specific tenants; (4) rent control encourages tenants to stay in controlled units for longer periods of time, resulting in reduced tenant mobility and misallocation of housing space, as tenants would tend to stay in their present units regardless of space needs; (5) rent control is expensive and difficult to administer in an equitable case-by-case manner; (6) rent control, once initiated, is extremely difficult to eliminate, and elimination causes serious short-term problems; (7) rent control may affect the confidence of the business community in a jurisdiction, which has implications for investment, including the tax ratings of a jurisdiction and the marketability of its bonds. (This may be particularly relevant in terms of the marketability of RAP bonds.)

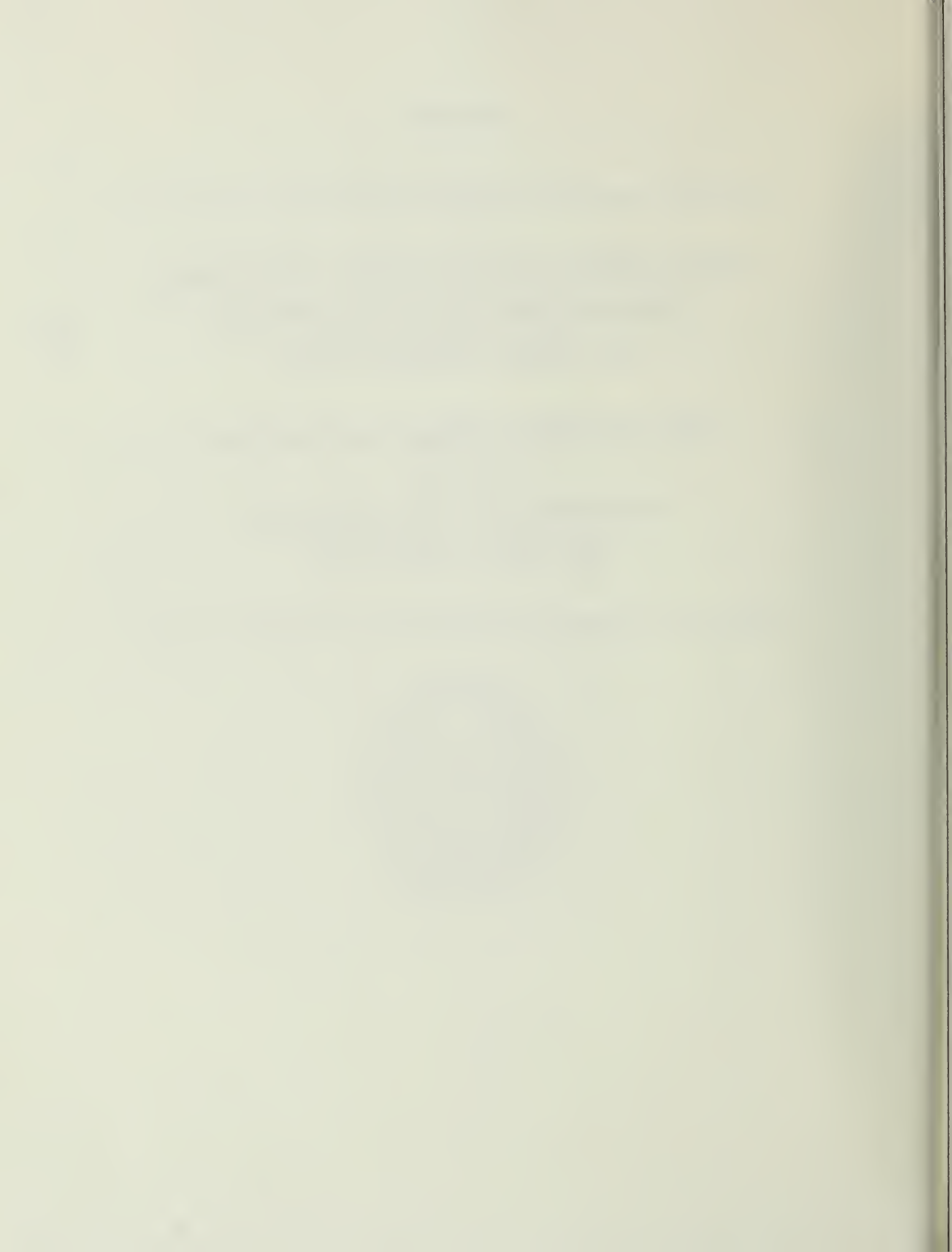
Abandonment has been linked with rent control in the past, and has been of major impact in New York City, as described in the attachment to this analysis. It is unclear to what extent rent control was the factor, however, as other non-rent controlled cities, including San Francisco in the specific North of Market area, have been experiencing abandonment as well. Another study of New Jersey cities, which assumes that the number of demolitions is an indicator of abandonment, implies that abandonment is not so related to rent guidelines. With maintenance mandatory, and with financing available through RAP loans, conditions for abandonment may not be present. On the other hand, if maintenance cannot be deferred, abandonment may occur more rather than less often, as fixed costs would be higher.

June 1977

THE EFFECTS OF RENT CONTROL
AND RENT STABILIZATION
IN NEW YORK CITY

Fifteenth Interim Report to the Mayor
by the
TEMPORARY COMMISSION
ON CITY FINANCES





During the years 1970-1975, the city also lost 500,000 jobs, more than wiping out the gain accumulated over the years 1950-1970. On the housing side, losses through abandonment numbered approximately 200,000 (mostly rental) housing units in the ten years 1965-1975 (Tables III and IV). And finally, for six perilous months during 1975-1976 the City skirted the road of fiscal bankruptcy.

What do these events foretell for the future of rental housing in New York City? The answer is necessarily a complex one and can more efficiently be addressed by examining a number of individual components.

C. Housing Deterioration

The City's 1975 housing and rental survey for the first time permitted a glimpse of the extent of deterioration in rent-controlled apartments compared with decontrolled apartments of similar age groups.¹⁷ The data in Table V show that in every maintenance category except one (rodent infestation) the proportion of deficiencies in the controlled sector exceed those in the uncontrolled sector up to 100 percent or more. The deficiencies in the decontrolled sector, meanwhile, are reasonably comparable to those for rental housing in all central cities of the Northeast Region.

D. Housing Abandonment

The city's rising tide of rental housing abandonment over the past ten years has focussed attention upon rent control as a contributory factor. There is little dispute about the contribution of rent control in accelerating under-maintenance, with its consequent deterioration and disinvestment in rental housing, as well as influencing the withdrawal of institutional investment from this sector.¹⁸

It is clear, however, that the problem of abandonment extends beyond the influence of rent control; it is signalled by the collapse of demand to the point where tenants are unable or unwilling to pay even the prevailing controlled rents for housing in deteriorated neighborhoods. This is indicated by the fact that abandonment is a nationwide phenomenon of older (and some newer) cities, small as well as large and virtually all of which are not affected by rent control. It would be difficult to assert that much of the abandonment now occurring would not have occurred in the absence of rent control. It is equally certain that rent control has created the pre-conditions for abandonment that do not exist in other areas.

When examined in this context, we are pushed toward a conclusion that the cause of abandonment must be traced to the complex of economic, demographic, and social factors affecting cities across the nation that led to a weakening and collapse of the market for older rental housing. The maturation of the automotive age caused unprecedented scatteration of people. Decentralized industry in efficient single-story plants designed to accommodate the automobile taps widely dispersed labor market areas. The loss of population and jobs from obsolete and noncompeti-

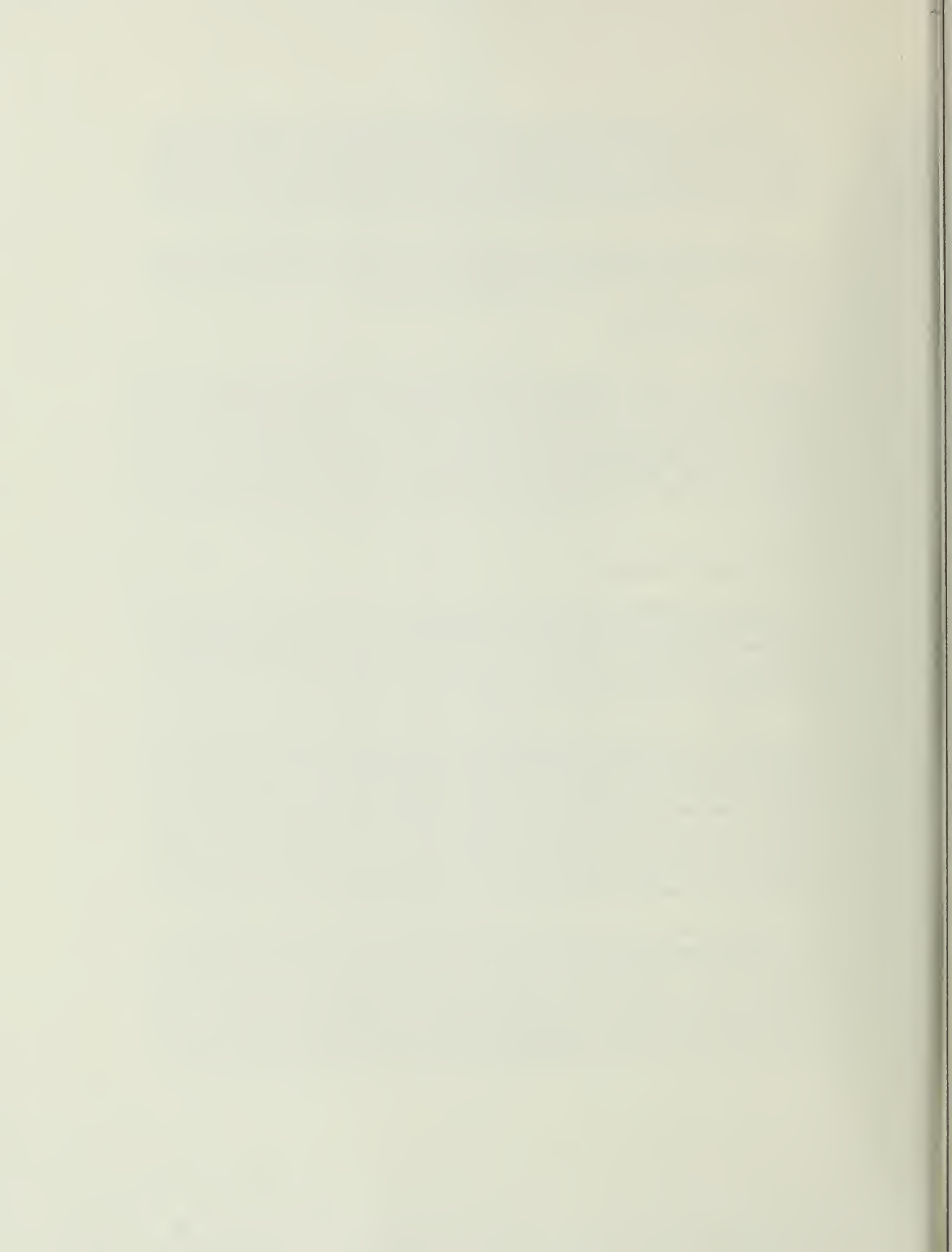


TABLE III

Components of Inventory Change with an Estimate of Housing
Units Lost Through Abandonment as a Residual, New York City:
1960-1970

(in thousands of units)

<u>Total Housing Units, 1960 Census</u>		<u>2,759</u>
New Units Completed ¹	369	
Units Added Through Conversions ¹	<u>41</u>	
Total Additions ¹		410
Losses: Demolitions ²	-160	
Mergers ¹	<u>- 14</u>	
Total Losses ¹		<u>-174</u>
Balance, 1970		2,995
<u>Total Housing Units, 1970 Census</u>		<u>2,918</u>
Missing—Presumably Vacant, Abandoned, and Not Recorded as Part of Housing Stock		.77
Estimated Number of Abandoned Units Included in Demolitions Figure Above		20
Estimated Number of Units Abandoned, 1960-70 ³		<u>97</u>

Source: ¹ The City of New York, Department of City Planning.

² Building Department records indicate that 110,000 units were demolished during the decade; an estimated 50,000 units in demolished Class B multi-family buildings (for which unit counts are not recorded) have been added to this total.

³ It is estimated that about 90 percent of this abandonment occurred in the years 1965-1970.

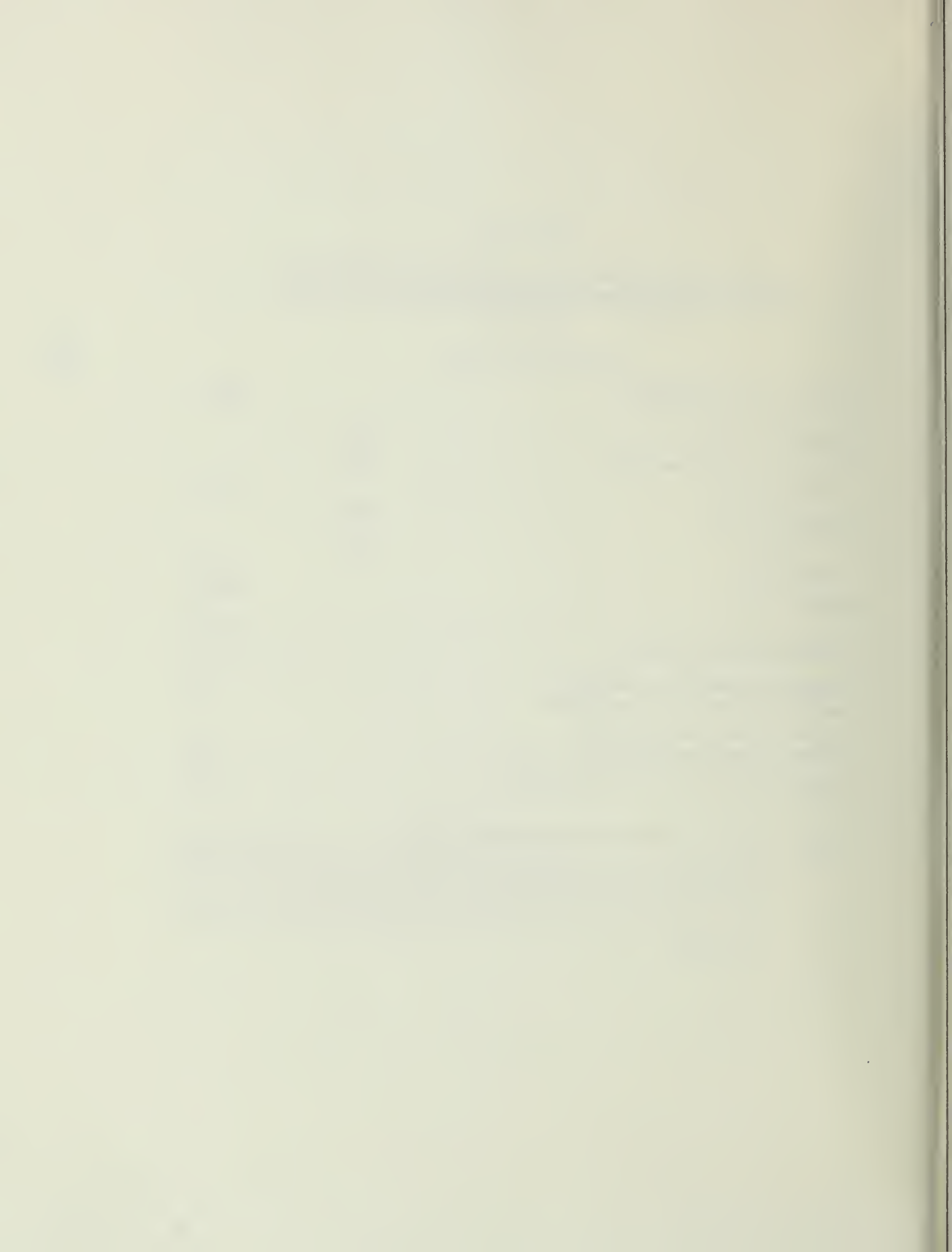


TABLE IV

Components of Inventory Change with an Estimate of Housing
Units Lost Through Abandonment as a Residual, New York City:
1970-1975

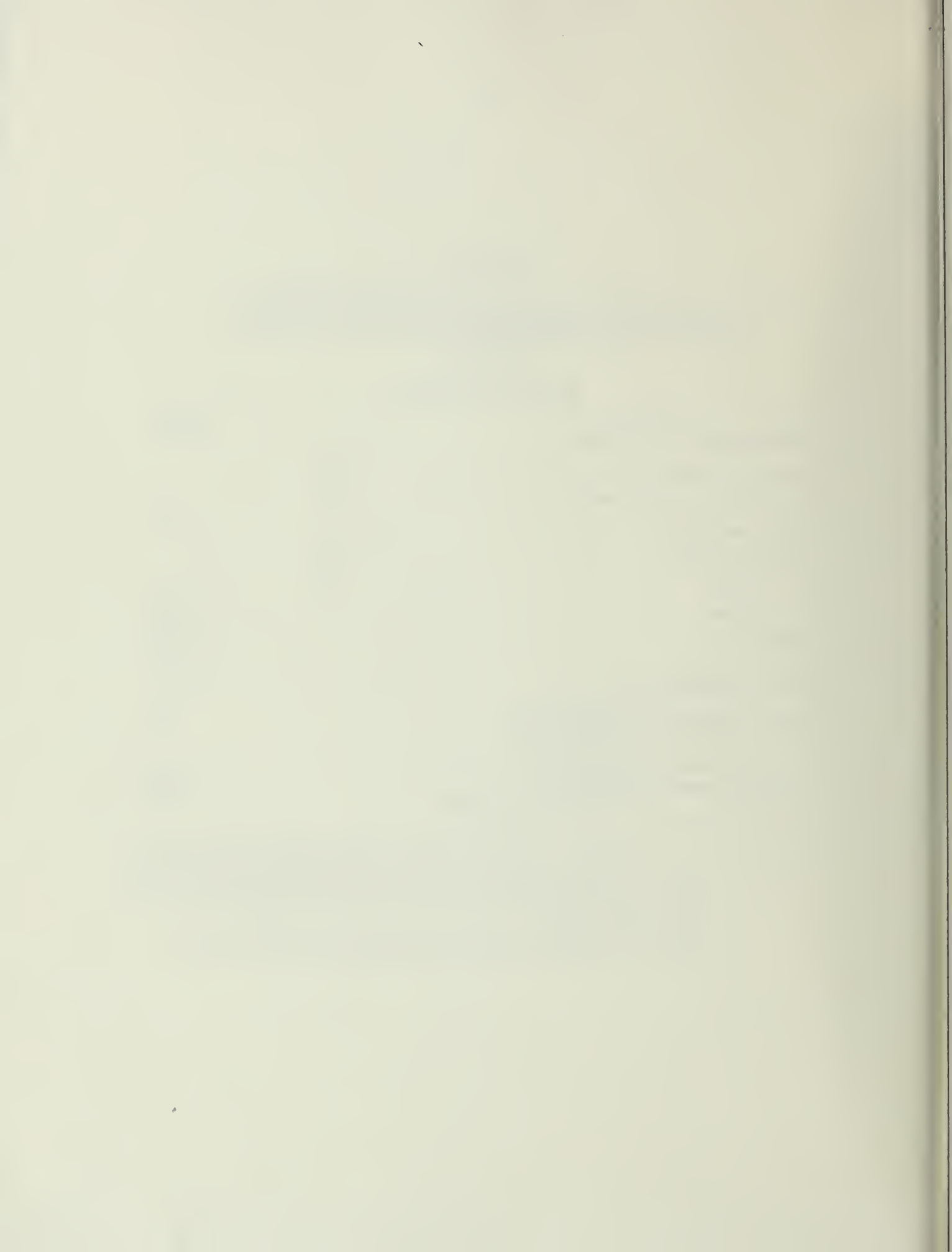
(in thousands of units)

<u>Total Housing Units, 1970 Census</u>		<u>2,918</u>
New Units Completed ¹	97	
Units Added Through Conversion ¹	<u>12</u>	
Total Additions		-109
Losses: Demolitions ²	66	
Mergers ¹	<u>6</u>	
Total Losses		<u>72</u>
Balance, 1975		2,955
<u>Total Housing Units, 1975³</u>		<u>2,884</u>
Missing—Presumably Vacant, Abandoned, and Not Recorded as Part of Housing Stock		71
Estimated Number of Abandoned Units Included in Demolitions Figure Above		<u>33</u>
Estimated Number of Units Abandoned Since 1970		104

Source: ¹Data for 1970-1974, from The City of New York, Department of City Planning.

²Building Department records indicate that 56,000 units were demolished; an estimated 10,000 units in demolished Class B multi-family buildings and hotels have been added to this total.

³U.S., Bureau of the Census, 1975 *New York City Housing and Vacancy Survey*.



tive residential and industrial facilities in cities inevitably follows. All other things being equal, with or without the existence of rent control, it is likely that the middle-class migration from cities to suburbs has been part of demographic and economic trends that were unlikely to be appreciably affected by public policy.

E. The Effects of Rent Control on Population Migration

It is a matter of speculation whether New York City's out-migration would have been hastened or slowed by a phasing out of rent control in the immediate post-war period. Much would have depended upon the extent to which the rapid in-migration of rural black and Hispanic persons would have been slowed in the face of a major jump in rents in the early 1950s. Certainly there might have been substantial dislocation of families lodged in bargain housing they never could have afforded in the absence of rent control. On the other hand, such displacement would not necessarily have driven these families out of the city. They would have had to face up to the prospect of paying the market price for their housing or to move to housing in locations that they more readily could afford. Clothing the market discipline that families must occupy the housing they can afford with terms such as "speculative, unwarranted and abnormal" increases in rents (as defined by whom?) only results in distortions of the market whereby families in controlled housing frequently pay a fraction of the rent paid by higher-income families, but often do so for poorer housing—a common result of rent control. The ethics of such a set of conditions has not yet been explained by rent control adherents. As much as a 50 percent rent increase for a family at the city's median rent-income ratio of 19 percent in 1950 would have increased its rent-income ratio to 28.5 percent which, although financially inconvenient, would not necessarily have resulted in unbearable budgetary hardship. It may be noted that young families who bought new homes in the suburbs at that time frequently undertook housing expense-to-income ratios of 30 percent or more.

On the other hand, the likelihood is that the rate of minority in-migration would have been slowed somewhat in the face of sharply rising rents while out-migration might have accelerated, with a result that the pressure on the existing housing stock would have been relieved. This eventually would have resulted in a stabilization of rents at a level about one-third higher than that of controlled rents as indicated in Table VI which shows that the difference in the average increase in median rents for the five other major rental cities compared with New York City for the period 1950-1960 was 31 percentage points (71 versus 40 percent). This is further supported by the observed differences between median controlled and de-controlled rents in the years 1960 to 1975 (Appendix B, Table B-2) which ranged between 24 and 44 percent.

On the other hand, a compensating factor might have been the more vigorous exploitation of the Federal Housing Administration's (FHA) Section 608 insured rental housing program. This program offered unprecedented 90 percent loan-to-value mortgages (as against the previous 80 percent) to stimulate new post-war

EXHIBIT XVIII

NEW JERSEY
 RESIDENTIAL CONSTRUCTION:
 AUTHORIZATIONS FOR ADDITIONS
 AND ALTERATIONS ESTIMATED
 COST: 1971 to 1974

City/Town			Percentage Change
Rent Control	1971-1972	1973-1974	
Atlantic City	919.6	296.30	
Bayonne	1,918.40	1,995.50	
Bloomfield	1,733.70	1,989.60	
Clifton	4,762.20	8,561.10	
East Orange	3,850.90	3,620.70	
Elizabeth	1,326.40	1,260.10	
Irvington	337.8	447.5	
Jersey City	2,676.50	5,202.60	
Passaic	1,647.60	2,307.60	
Paterson	3,341.30	5,992.20	
Newark	4,655.00	1,902.40	
Union City	661.20	740.3	
Total	28,754.20	34,315.00	19.0
Non-Rent Control			
Trenton	1,886.70	3,125	
Camden	2,446.70	1,556	
Total	4,333.40	4,681.00	8.0

